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SUBJECT: RTG INVITES FEEDBACK ON POWER SOLICITATION

¶1. SUMMARY. Thailand is moving closer to issuing its second solicitation for Independent Power Producers (IPPs) in 2007. The new solicitation is designed to minimize the cost and risk for the RTG throughout the bid process and up to the point the new capacity comes on line. Bidders will face numerous stringent bid requirements, but the Ministry of Energy (MOE) seems to be striving for a transparent process limiting the amount of subjectivity in the bid evaluations. Significantly, state owned enterprises (SOEs) will not be permitted to participate in the bidding. Despite the MOE's desire to diversify Thailand's energy supplies, and use the country's coal reserves, it seems likely that there will be few, if any bidders proposing coal-fired projects, if any. Even as the IPP round moves forward potential bidders will be conscious of the risk posed by Thailand's unsettled political situation. End summary.

Thailand Moves Closer to Second IPP Solicitation

¶2. In December 2006, the Energy Policy Planning Office (EPPO) of Thai Ministry of Energy held a conference to discuss the upcoming bid solicitation for Independent Power Producers (IPPs). The target audience was principally potential bidders for the new IPP awards. The draft plan for the IPP solicitation was presented and feedback from industry was solicited.

¶3. The timetable for the second IPP round projects an RFP issuance in March 2007, bid submission in October 2007, preferred bidders named in April 2008, Power Purchase Agreements (PPA) signed in October 2008, and financial close and notice to proceed in April 2009. EPPO claims that this schedule is generous, with selection of preferred bidders and signing of PPAs possibly occurring earlier than scheduled.

¶4. The current round of IPP bidding will be Thailand's second. The first round was conducted in 1994 and drew 88 proposals, of which seven were awarded, for 6,675 megawatts of capacity. All seven eventually achieved financial close, despite the 1997 financial crisis, and are now operational.

¶5. This round of IPP bidding will award 3,000-4,000 megawatt (MW) of capacity, with scheduled commercial operation between from 2011 through 2013. The Ministry will announce annual capacity amounts in early 2007 following the finalization of the new load forecast and power development plan. Additionally, in order to mitigate excess capacity risk, the Ministry will require each bidder to provide a option to extend the bidder's scheduled commercial operation date by up to 24 months, at a fixed price, which option the MOE can exercise at any time prior to the scheduled commercial operation date.

¶6. The RTG's objective for the new round of IPP solicitation is to encourage high quality, low cost bids for the private sector to develop, finance and construct the next expansion

of Thailand's energy generating capacity. In addition to seeking the lowest cost proposals, the process itself has been designed to impose the lowest expense on the RTG, using a pay-to-play format.

¶17. Much of the financial burden of the bid process will be placed on the bidders themselves. The bid package itself will cost 100k baht, and each bidder will be required to submit with the bid an evaluation fee of 1m baht, and a bid bond of 500 baht/kilowatt of proposed capacity. The funds will help finance an independent bid management committee (BMC), appointed by the MOE, that will evaluate the bids and recommend preferred bidders.

The Bid Process Explained

¶18. Bids will comprise separate sealed technical and price proposals and will be evaluated in two separate phases. The first phase will be a pass-fail evaluation of compliance requirements and non-price factors, including acceptance of the mostly non-negotiable PPA, the PTT gas sales agreement (for gas-fired projects), and a guaranteed bid validity of 9 months. Bids will also be evaluated on the use of proven technology, submission of an environmental impact analysis (EIA), and fuel supply and price risk. Bids that successfully pass the technical review will be evaluated and ranked based on price. The price will comprise two components, and Availability Payment (including capital recovery), and an Energy Payment. As part of the evaluation process EPPO states that the BMC may request meetings, which may be private, with any bidders to clarify (but not negotiate) terms.

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¶19. Once preferred bidders have been named they will be required to submit an additional non-refundable fee of 4m baht at the commencement of the contract finalization phase. Nevertheless, EPPO anticipates that PPA negotiations will be of very short duration (weeks) due to previous PPA precedent and the pre-acceptance of large sections of the PPA.

¶110. EPPO notes that Thailand's power sector is heavily dependent upon limited supplies of natural gas and a single generating technology. In 2005 over 75% of Thailand's electricity was generated by gas-fired power plants, and this figure is expected to increase slightly in the next few years. The Ministry of Energy (MOE) is consequently considering placing capacity award limits on gas-fired projects, and/or offering additional incentives to developers of coal-fired projects. At the same time the Renewable Portfolio Standard (RPS), which would have required each IPP to provide 5% of capacity from renewables, has been canceled in favor of a future, separate, solicitation targeting renewable energy.

¶111. Each IPP will be required to submit a community development program (CDP) providing benefits to the project's host community. At a minimum, each IPP must commit funds equal to 30 THB per kilowatt of project capacity for CDP start-up, and 1/100 THB per KWh of deliveries for continuing programming. Submission of a satisfactory CDP will constitute one of the pass/fail elements of the bid evaluation.

¶112. Bidders are also required to submit their projects for an Environmental Impact Assessment (EIA), and must obtain EIA approval prior to the execution of the PPA. Failure to obtain approval after a maximum six month extension from the scheduled signing date will result in the rejection of the bid and the retention of the 15% bid bond.

SOEs Need Not Apply

¶13. State owned enterprises (SOEs) will not be permitted to directly participate in the bid solicitation, although they may do so indirectly through subsidiaries or consortiums in which the SOE holds less than 50% equity interest and/or control. Notably this minority limit applies from the bid date through the end of the PPA.

¶14. Significantly, EPPO also stated that it had not yet been decided that the Energy Generating Authority of Thailand (EGAT, the state-owned power company) should be allotted any share of new capacity for the 2011-13 time period. (Comment: Previous rumors had suggested that as much as 50% of new capacity might be reserved for EGAT, with the possibility that EGAT might also be allowed to bid for IPP capacity. This no longer appears to be the case, although notably EPPO did not definitively state that EGAT would NOT be awarded a share of capacity. End Comment.)

Participants Respond

¶15. EPPO's presentation generated considerable feedback from industry representatives. One clear theme was the need for transparency, and the appearance of transparency, in the bid and evaluation process. In this regard participants objected to the possibility of closed-door clarification meetings between the BMC and individual bidders. There was also uneasiness about EGAT's involvement in the bid process, forcing the EPPO representatives to reiterate that EGAT would serve only as a technical resource.

¶16. Another recurring theme was the size of the solicitation, with multiple comments suggesting an expansion of the capacity available, or an extension of the time frame, or both. One participant questioned whether 3-4 thousand MW was too small to be worth the trouble. EPPO pointed out that Thailand was proposing the largest current public solicitation in the region. They also noted that it was the intention of the EPPO and the MOE to hold solicitations on a more regular basis, ensuring that unsuccessful bidders would have an opportunity to try again in the near future.

¶17. There was considerable comment regarding how the proposed bid parameters would make accurate pricing difficult. Prices for critical materials (such as copper and steel) vary greatly, any fixed price quote beyond three months will need to include a price risk premium. The MOE's requirement for an option to delay commercial operations will

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also introduce a risk cost. One respondent complained this option price could skew the overall bid price and the competitiveness of the bid, even though the option might never be exercised.

¶18. Multiple participants were also uneasy about the EIA and CDP elements of the bid requirements. Some wondered if the RTG's Office of Environmental Policy and Planning (OEPP) had the capacity to handle numerous EIA applications in a timely manner, although EIA approval will only be required for winning bidders.

¶19. A number of participants pointed out the special issues involved for coal proposals, including a higher fuel cost risk, and the significant risks associated with obtaining EIA approval and popular opposition to coal plants. One participant involved with a coal project from the first IPP spoke about the significant difficulties faced with bringing the project to completion. Indeed, the overwhelming sentiment seemed to be one of great reluctance to submit a bid involving a coal-fired plant; no one seemed to want to take on the headaches associated with coal. Some speakers

supported the possibility of a separate solicitation targeted exclusively towards coal-fired projects.

Comment

¶20. As presented by EPPO the structure of Thailand's next IPP solicitation is designed to minimize the cost and risk assumed by the RTG. At the same time the extensive EAI and CDP provisions of the bid requirements seem designed to ultimately make the completion of projects by successful bidders politically smoother. While the MOE is clearly determined to maintain tight control of the development of Thailand's energy sector (e.g. by reserving the option to delay the operational start of IPPs if they feel the capacity is not yet needed), EPPO is also clearly committed to considering the perspectives of potential bidders. Considerable effort has gone into developing the IPP solicitation and it is likely that the RFP will result in numerous bids, despite the requirements that bidders will be required to meet. From the general lack of enthusiasm expressed by participants for coal projects, however, it is hard to see how the MOE will achieve its objective of reducing Thailand's reliance on natural gas without further incentives, or a separate solicitation. The limits on SOE participation, and the absence of an EGAT set-aside are encouraging signs for increased competition in Thailand's energy sector. Also, the RTG's Chief Economic policymaker, Deputy Prime Minister and Finance Minister Pridiyathorn, is an enthusiastic supporter of the relatively open bidding arrangements. Yet despite all of the positives any optimism must be tempered by a realization of the political uncertainty, with elections and a new government due in early fall (or about when IPP bids are due). A new administration, or a deterioration of the situation under the interim government, could yet derail the entire process.
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